

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

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| ADJUSTMENT OF RATES OF AUXIER ) |               |
| ROAD GAS COMPANY, INC., OF )    | CASE NO. 7897 |
| PRESTONSBURG, KENTUCKY )        |               |

ORDER DENYING HEARING

On May 14, 1981, Auxier Road Gas Company ("Applicant") filed a petition for rehearing in connection with the Commission's elimination of \$7,600 in expenses in its Order of April 23, 1981. This expense reduction was an offset to the proposed and accepted adjustment to reduce revenues by \$9,000, as these revenues were described as nonrecurring.

The \$7,600 is the total cost billed of two line extensions. The costs associated with the line extensions were improperly accounted for. Essentially, what the Applicant did was to charge these costs, with the exception of material costs which was added to plant, to operating expenses; the proper accounting would have been to add these costs directly to the plant accounts and treat the proceeds from the customers as customer advances for construction. Applicant then made a second entry to add the billed amounts to plant and customer advances which merely compounded the problem by overstating plant without alleviating the original error in expenses.

Applicant contends in its petition for rehearing that, although these charges were billed the customers for the extension work, in fact the accountant's estimate shows that actual cost was for less than

the \$7,600, as some of this cost is fixed and would appear on a recurring basis regardless of the amount of extension work performed.

By regulation (807 KAR 5:021E, Section 10), a gas utility can charge the "total cost of excessive footage over 100 feet per customer for extensions". The term "total cost" is the issue herein. A utility cannot at the time of billing for extensions set an arbitrary level of total cost, to later reduce this amount when the issue arises in a rate case. If the Commission had been convinced by this argument in the initial Order, the Applicant would have been required to make the necessary refunds to reduce the billed extensions to the rate case estimate of cost. However, as the Commission did not require refund, it would be entirely unfair for the utility to double recover on this cost prospectively.

The second point in the Applicant's petition was that as the materials cost of the two major line extensions of \$3,903 was charged directly to plant and not included in operating expenses, the Commission had overstated the amount of the reduction.

In its analysis of construction charges for the test year, Applicant supplied information showing that in addition to the two major line extensions, other smaller extensions and installations were made and, moreover, the Applicant had included costs associated with machine rental and other non-utility work in operating expenses. All costs associated with non-utility operations should be eliminated from operating expenses and, secondly, the costs of the smaller line extensions and installations should, as described above, have been charged to plant and not included in operating expenses. The total labor and equipment charges for the smaller line extensions and

installations were \$1,824 and, while the cost of non-utility work cannot be determined with accuracy, it is reasonable to assume that the full amount of the charges of \$2,912 was not entirely profit.

Therefore, the Commission is of the opinion that the Applicant's petition for rehearing should be denied as the \$7,600 deducted from operating expenses is a reasonable estimate of the costs improperly accounted for as an offset to nonrecurring revenue.

IT IS THEREFORE ORDERED that the petition for rehearing of the Auxier Road Gas Company, Inc., is hereby denied.

Done at Frankfort, Kentucky, this 2nd day of June, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voth  
Chairman

Did not participate  
Vice Chairman

Jim Haragan  
Commissioner

ATTEST:

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Secretary